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**BEFORE THE ARIZONA CORPORATION**

Arizona Corporation Commission

**COMMISSIONERS****DOCKETED**

BOB STUMP - Chairman  
 GARY PIERCE  
 BRENDA BURNS  
 BOB BURNS  
 SUSAN BITTER SMITH

MAY - 8 2013

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
 ARIZONA TELEPHONE COMPANY FOR A  
 HEARING TO DETERMINE THE EARNINGS OF  
 THE COMPANY, THE FAIR VALUE OF THE  
 COMPANY FOR RATEMAKING PURPOSES,  
 AND TO INCREASE RESIDENTIAL RATES AS  
 NECESSARY TO COMPENSATE FOR THE RATE  
 IMPACTS OF THE FCC'S USF/ICC  
 TRANSFORMATION ORDER.

DOCKET NO. T-02063A-12-0473

DECISION NO. 73873**OPINION AND ORDER**

DATE OF HEARING:

March 25, 2013

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Teena Jibilian

APPEARANCES:

Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on  
 behalf of Applicant; and

Ms. Maureen A. Scott, Senior Staff Counsel and Mr.  
 Charles O. Hains, Staff Attorney, Legal Division on  
 behalf of the Utilities Division of the Arizona  
 Corporation Commission.

**BY THE COMMISSION:**

On November 23, 2012, Arizona Telephone Company ("Arizona Telephone" or "Company")  
 filed with the Arizona Corporation Commission ("Commission") the above-captioned application.  
 The application states that it was filed pursuant to A.R.S. § 40-250 and Arizona Administrative Code  
 R14-2-103, to compensate for the rate impacts of the Federal Communication Commission's  
 ("FCC's") November 18, 2011 Universal Service Fund/Inter-carrier Compensation ("USF/ICC")  
 Transformation Order ("USF/ICC Transformation Order").<sup>1</sup>

\* \* \* \* \*

<sup>1</sup> FCC 11-161, *Connect America Fund*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (November 18, 2011); *pets. for review pending* (10th Cir. filed Dec. 8, 2011).

1 Having considered the entire record herein and being fully advised in the premises, the  
2 Commission finds, concludes, and orders that:

3 **FINDINGS OF FACT**

4 **Procedural History**

5 1. On November 23, 2012, Arizona Telephone filed the rate application with the  
6 Commission.

7 2. On January 22, 2013, Arizona Telephone filed a Motion for Procedural Order.

8 3. On January 28, 2013, a Rate Case Procedural Order was issued, setting the matter for  
9 hearing and establishing associated procedural deadlines, including the mailing of notice of the  
10 application and hearing to all of Arizona Telephone's customers.

11 4. On February 22, 2013, Arizona Telephone filed an Affidavit regarding notice of the  
12 application and hearing.

13 5. On March 6, 2013, Arizona Telephone filed a revised Affidavit indicating that notice  
14 as ordered by the Rate Case Procedural Order was mailed to each customer of Arizona Telephone.

15 6. No requests for intervention were filed.

16 7. On March 14, 2013, Staff filed its Staff Report recommending approval of the  
17 application, for an increase from \$10.00 to \$14.00 in the monthly residence local exchange rate to  
18 address the impact of the FCC's USF/ICC Order.

19 8. On March 21, 2013, Staff filed the Testimony Summary of its witness.

20 9. No public comment was filed in opposition to the rate increase.

21 10. On March 25, 2013, a hearing on the application was convened before a duly  
22 authorized Administrative Law Judge of the Commission. Arizona Telephone and Staff appeared  
23 through counsel, presented testimony and evidence through witnesses, and were provided an  
24 opportunity to cross examine witnesses. No members of the public appeared to provide public  
25 comment.

26 11. Following the parties' submission of evidence, the matter was taken under advisement  
27 pending the submission of a Recommended Opinion and Order.

28 ...

1 **Arizona Telephone**

2 12. Arizona Telephone is an Arizona public service corporation engaged in the business of  
3 providing telephone utility service to the public in portions of Coconino, Gila, Pima, Maricopa and  
4 Yuma Counties. The Company serves customers in its Sasabe, Hyder, Harquahala, Tonto Basin,  
5 Roosevelt, Blue Ridge, Mormon Lake, Greenhaven, Marble Canyon and Supai Exchanges. In its  
6 April 15, 2012, Utilities Annual Report, Arizona Telephone reported 2,036 residential lines and 770  
7 business lines.

8 13. Arizona Telephone is currently charging rates set by Commission Decision No. 73575  
9 (November 21, 2012).

10 14. Arizona Telephone is a rate of return incumbent local exchange carrier ("ILEC")  
11 eligible to receive federal high-cost loop support ("FHCLS").

12 **FCC USF/ICC Order**

13 15. On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order  
14 provides for a transition from former federal universal service programs and most intercarrier  
15 compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC  
16 states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be  
17 reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.

18 16. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount  
19 their flat-rate residential local service rates fall below a specified local service rate floor. The rate  
20 floor includes state subscriber line charges, state universal service fees, and mandatory extended area  
21 service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$14.00 as of  
22 June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition  
23 Bureau.

24 17. As a recipient of FHCLS, Arizona Telephone is affected by the FCC USF/ICC Order.  
25 Under the USF/ICC Order, to continue receiving FHCLS, rural ILECs such as Arizona Telephone  
26 must increase their residential local rates to the FCC-mandated residential rate floors. Otherwise, the  
27 amount of FHCLS funds received will be reduced dollar-for-dollar for each customer by the  
28 difference between the existing local rate and the new rate floor.

1 **Application**

2 18. The application requests that Arizona Telephone be authorized to raise its residential  
3 local rates from \$10.00 to the \$14.00 rate floor mandated by the USF/ICC Order to allow it to  
4 continue receiving FHCLS.

5 19. Arizona Telephone submitted the application, after consulting with Staff, in a  
6 "streamlined" form. The application and accompanying exhibits in support of Arizona Telephone's  
7 requested increase in residential rates are based on the twelve months ending June 30, 2012.

8 20. For the twelve months ending June 30, 2012, Arizona Telephone's filing indicates  
9 total Intrastate Operating Revenues of \$1,121,018 (which includes FHCLS and Federal Safety Net  
10 Additive Support of \$106,060), and total Intrastate Operating Expenses of \$1,865,480, for total  
11 Intrastate Operating Income of negative \$774,462 before taxes, and negative \$450,172 after taxes.

12 21. The filing indicates a total Arizona rate base of \$3,873,823, of which \$1,478,798 is  
13 interstate, and \$2,395,025 is intrastate.

14 **Staff Recommendations**

15 22. Staff states that it reviewed the application and the federal rule changes that prompted  
16 its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the  
17 unique circumstances of this case, but that its recommendation should not be viewed as precedent for  
18 the processing of future rate case applications.

19 23. Staff states that for the purposes of this proceeding, Arizona Telephone stipulated to  
20 the use of original cost less depreciation ("OCRB") as the basis for a determination of its fair value  
21 rate base ("FVRB").

22 24. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff  
23 does not recommend that Arizona Telephone's rates be set based on a revenue requirement analysis.

24 25. Staff states that the annual revenue effect of Arizona Telephone's requested increase  
25 in local telephone service rates to \$14.00 would be \$94,752. Staff states that compared to Arizona  
26 Telephone's total revenues, any revenue impact from this rate increase would be small, and any  
27 impact on Arizona Telephone's fair value rate of return would be de minimus. Staff states that with  
28 Arizona Telephone's requested increase, operating income would remain negative, and that the rate

1 of return would be less than zero, and not meaningful in this case.

2       26. Staff recommends that Arizona Telephone's monthly residence local exchange rate be  
3 increased to \$14.00 to address the impact of the USF/ICC Transformation Order. Staff states that it  
4 believes the requested increase is just, fair, and reasonable for the following reasons:

- 5               (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC  
6 Transformation Order;
- 7               (b) The increase is necessary to preserve the entirety of the federal USF funds that  
8 may flow to Arizona Telephone pursuant to the FCC's rules;
- 9               (c) The increase will minimize/reduce the amount of future rate increase; and
- 10              (d) The increase will allow Arizona Telephone to receive matching funds from the  
11 FUSF.

12       27. The Staff Report states that on November 28, 2012, the Records Section of the  
13 Corporations Division responded that Arizona Telephone is in Good Standing, and a review of  
14 Consumer Services database revealed that no complaints, inquiries and opinions were received  
15 pertaining to Arizona Telephone for the period January 1, 2009 – November 28, 2012.

16       28. Staff states that a check of the Utilities Division Compliance Section database showed  
17 that Arizona Telephone is in compliance with all items.

### 18 Conclusions

19       29. Under the particular circumstances of this proceeding, a rate of return analysis is not  
20 useful.

21       30. According to the evidence presented, the rate increase request will have a de minimus  
22 effect on Arizona Telephone's return on FVRB.

23       31. Staff's recommendations are reasonable and should be adopted.

24       32. Under the particular circumstances of this proceeding, Arizona Telephone's rates for  
25 residential local service should increase from the currently tariffed rate of \$10.00 to \$14.00, and all  
26 other currently tariffed rates should remain unchanged, in order to assure continued FUSF support for  
27 Arizona Telephone's services.

### 28 CONCLUSIONS OF LAW

1. Arizona Telephone is a public service corporation within the meaning of Article 15 of

the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.

3. The Company provided notice of this proceeding in accordance with law.

4. The Company's Arizona Intrastate FVRB as of June 30, 2012, is \$2,395,025.

5. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.

6. Under the particular circumstances of this proceeding, it is appropriate to increase Arizona Telephone's rates for residential local service from the currently tariffed rate of \$10.00 to \$14.00, and to leave all other currently tariffed rates unchanged, in order to assure continued FUSF support for Arizona Telephone's services.

7. The rates and charges authorized herein are just and reasonable and promote the public interest.

8. The Company should be directed to file revised tariffs showing the rates authorized herein.

## ORDER

IT IS THEREFORE ORDERED that Arizona Telephone Company shall increase its rates and charges in accordance with the Findings of Fact herein.

IT IS FURTHER ORDERED that such new rates and charges shall be effective for Arizona Telephone Company's billings on or after June 1, 2013.

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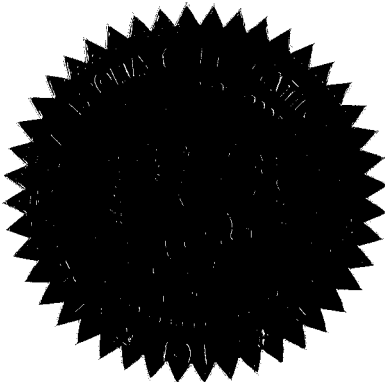
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IT IS FURTHER ORDERED that Arizona Telephone Company is authorized and directed to file, on or before May 31, 2013, revised schedules of rates and charges consistent with the Findings of Fact and Conclusions of Law contained herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN \_\_\_\_\_ COMMISSIONER \_\_\_\_\_  
 COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_ COMMISSIONER \_\_\_\_\_



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 8th day of May 2013.

JODI JERICH  
 EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

1 SERVICE LIST FOR: ARIZONA TELEPHONE COMPANY

2 DOCKET NO.: T-02063A-12-0473

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